

PUBLIC DISCLOSURE

March 16, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers and Merchants Bank of Central California
12-06-0580-0000**

**121 West Pine Street
Lodi, California 95240**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

| | | |
|------|---|----|
| I. | General Information | 3 |
| II. | Institution | |
| | A. Overall Rating | 4 |
| | B. Lending, Investment, Service Test Table | 4 |
| | C. Description of Institution | 5 |
| | D. Scope of Examination | 7 |
| | E. Overall Conclusions with Respect to Performance Tests | 7 |
| | F. Compliance With Anti-Discrimination Laws & Regulations | 11 |
| III. | Assessment Area Summaries – <i>Assessment areas for which a full-scope review was performed</i> | |
| | A. Stockton-Lodi Assessment Area | 12 |
| | B. Modesto-Merced Assessment Area | 17 |
| IV. | Assessment Area Summaries – <i>Assessment areas for which a limited scope review was performed</i> | |
| | A. Sacramento-Yolo Assessment Area | 22 |
| V. | Appendix A – Glossary of Terms | 23 |

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance for **Farmers and Merchants Bank of Central California** prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of **March 16, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

INSTITUTION

INSTITUTION'S CRA RATING: This institution is rated satisfactory.

Farmers and Merchants Bank of Central California has affirmatively addressed the credit needs of its communities. The high satisfactory performance under the lending test is based on the fact that a substantial number of the bank's loans were extended within its assessment areas and that the distribution of these loans among geographies and borrowers in different income levels and businesses and farms of different sizes is consistent with area demographics. Under the investment test, the institution's performance is needs to improve primarily due to the low volume of grants and the absence of other CRA qualified investments. The bank's performance under the service test is low satisfactory, predominantly based on the decline of community development services since the prior examination. However, the bank's delivery systems are reasonably accessible to essentially all portions of its assessment areas.

| PERFORMANCE LEVELS | FARMERS AND MERCHANTS BANK OF CENTRAL CALIFORNIA | | |
|----------------------------------|---|----------------------------|-------------------------|
| | PERFORMANCE TESTS | | |
| | Lending Test | Investment Test | Service Test |
| Outstanding | | | |
| High Satisfactory | X | | |
| Low Satisfactory | | | X |
| Needs to Improve | | X | |
| Substantial Noncompliance | | | |

* Note: *The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.*

DESCRIPTION of INSTITUTION

Founded in 1916 and headquartered in Lodi, California, Farmers and Merchants Bank of Central California provides a wide variety of financial services to the citizens of the Central Valley. The institution offers an array of banking products, but primarily focuses on commercial and agricultural lending. As of September 30, 1997, total assets were \$647.6 million, of which 41.6% were in loans. The following table describes the bank's loan portfolio mix in detail.

| LOAN TYPE | DOLLAR AMOUNT (\$000) | PERCENT |
|---|--------------------------|---------|
| Commercial/Industrial and Secured by Nonfarm Nonresidential Real Estate | \$109,013 | 40.5% |
| Agricultural and Secured by Farmland | \$76,959 | 28.5% |
| Secured by 1-4 Family Residential Property | \$43,355 | 16.1% |
| Construction and Land Development | \$26,027 | 9.6% |
| Credit Cards and Consumer Loans | \$13,919 | 5.2% |
| All Other Loans | \$303 | .1% |

The bank has defined three separate assessment areas (Stockton-Lodi, Modesto-Merced, and Sacramento-Yolo). The Stockton-Lodi assessment area consists of portions of San Joaquin County, primarily encompassing the City of Lodi. The Modesto-Merced area is comprised of sections of Merced and Stanislaus counties. This assessment area contains the southern section of Stanislaus County and the cities of Modesto and Turlock. In the northern section of Merced County, it includes the city of Hilmar. The Sacramento-Yolo assessment area consists of portions of Sacramento and Yolo Counties and is part of the Sacramento-Yolo CMSA (Consolidated Metropolitan Statistical Area). Within the three assessment areas, there are 155 census tracts with a distribution as follows:

| Tracts by Income | Sacramento-Yolo | Modesto-Merced | Stockton-Lodi |
|------------------|-----------------|----------------|---------------|
| Low | 1 | 5 | 1 |
| Moderate | 13 | 15 | 3 |
| Middle | 24 | 46 | 14 |
| Upper | 12 | 15 | 6 |
| Total | 50 | 81 | 24 |

Among these areas, the bank has twelve full-service branches, nine equipped with drive-up facilities and all having automated teller machines (ATMs). The bank also maintains three stand-alone drive-up facilities and two loan production offices (LPO). The main office is located in the City of Lodi, which is 34 miles south of Sacramento and 100 miles northeast of San Francisco. The Vineyard office, the three stand-alone drive-up facilities, and the Time Square LPO are also located in Lodi. The second LPO is located in the City of Walnut Grove. Although not a full-service branch, the LPOs allow customers to walk-in and inquire or apply for any of the bank's existing loan products. However, the LPOs do not accept deposits nor allow loan payments. The remaining ten branches are located in the cities of Hilmar, Linden, Modesto, Sacramento, Elk Grove, Galt, and Turlock.

There are no legal or financial impediments that would prevent Farmers and Merchants Bank of Central California from meeting community credit needs consistent with its size, financial capacity, and economic conditions. At its previous examination in April 1996, the bank's CRA performance was satisfactory.

SCOPE OF EXAMINATION

Farmers and Merchants Bank of Central California's lending, investment, and service activity were evaluated to ascertain its performance with respect to the Community Reinvestment Act. The sample period for review was April 1, 1996 through December 31, 1997. Examiners reviewed those loan types for which the bank collected and reported data as required by Regulations BB (Community Reinvestment Act) and C (Home Mortgage Disclosure Act). The following loan products were reviewed:

| LOAN PRODUCT | NUMBER OF LOANS | AMOUNT OF LOANS (000's) |
|-----------------------------|-----------------|-------------------------|
| Small Business ¹ | 950 | \$112,104 |
| Small Farm | 449 | \$61,458 |
| Refinance ² | 135 | \$11,030 |
| Home Improvement | 98 | \$2,173 |
| Home Purchase | 66 | \$6,134 |
| TOTAL | 1,698 | \$192,899 |

The bank did not elect to have its consumer loan data evaluated; therefore, they were not included as part of the examination. The distribution of loans originated inside the bank's three assessment areas was analyzed based on loan data provided by the bank. The majority of the bank's lending activity and its branch network are located in the Stockton-Lodi and the Modesto-Merced assessment areas; therefore, these two areas were reviewed using the full examination procedures. The bank's performance in the Sacramento-Yolo assessment area was not evaluated using the standard examination procedures. Rather, the assessment area was reviewed to ascertain whether the bank's level of lending, investments, and services in the area was consistent with the Stockton-Lodi and Modest-Merced assessment areas.

OVERALL CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

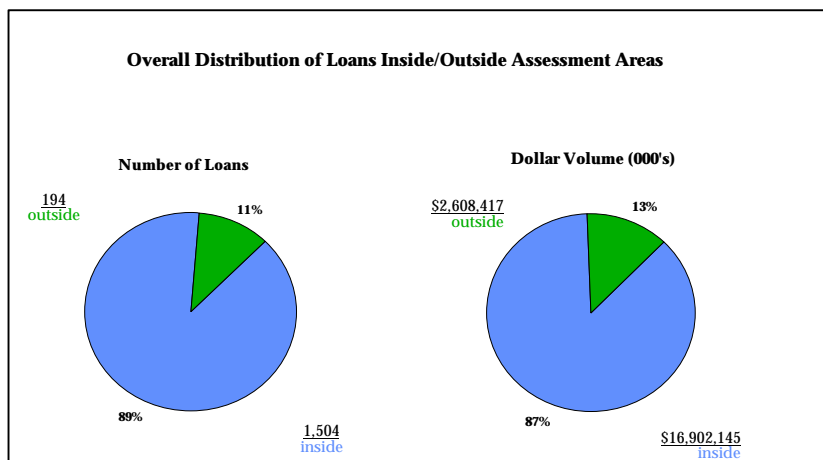
An analysis of the bank's average loan-to-deposit ratio for the six quarters since the previous examination indicates that its average ratio is slightly lower than one of its peers and significantly lower than the other peer. However, the influx of \$24 million in deposits and management of classified assets caused the low ratio. Consequently, lending levels reflect adequate responsiveness to assessment area credit needs. In addition, the distribution of loans among geographies and borrowers of different income levels and businesses and farms of different sizes in addressing area credit needs is satisfactory. Further supporting its performance is the use of community development lending and innovative or flexible loan programs.

¹ These loans include Other Secured Small Business Loans.

² Going forward, refinance, home improvement, and home purchase loans will be referred to as residential loans.

Assessment Area Concentration

A substantial majority of the bank's loans were extended within its assessment areas. The following chart reflects the concentration of all loan products originated during the sample period, both in number and dollar amount, inside and outside of the bank's assessment areas.



In addition to the overall ratio, for each loan type reviewed, at least 85% of the loans extended were within one of the bank's assessment areas.

Lending Distribution by Geography

The bank's geographic distribution of loans reflects an adequate penetration throughout its assessment areas. The results indicated that a reasonable number and amount of loans were originated in low- and moderate-income geographies. The overall distribution of loans is centered around the bank's twelve branches and demonstrates no conspicuous lending gaps.

Lending Distribution by Business Size and Borrower Income

The bank's overall distribution of loans reflects an adequate penetration among businesses and farms of different sizes and borrowers of different income levels. A majority of small business and small farm loans were extended to businesses or farms with gross annual revenues of less than or equal to \$1 million. In addition, the bank's record of lending to borrowers of different income levels, particularly to low- and moderate-income individuals compares favorably to assessment area demographics, when considering the credit needs, housing affordability, and lending opportunities.

Community Development Lending

Farmers and Merchants Bank of Central California actively uses community development to support its lending test performance. The bank continues to participate in two loan pools, specifically the California Community Reinvestment Corporation (CCRC) and the Northern California Reinvestment Corporation (NCRC). The CCRC provides long-term debt financing for affordable housing projects

throughout the state of California by pooling funds from its member banks. Similarly, the NCRC uses a loan pool funded by member banks to finance affordable housing projects throughout northern California, a regional area that includes one of the bank's assessment areas. The bank's continuing commitment to both pools is respectively \$2.3 million and \$250,000. Since the previous examination, approximately \$347,000 was funded for 19 CCRC loans. No NCRC loans have been funded since the previous examination.

Other community development lending during the review period consisted of 23 loans for \$1.6 million. These loans most often facilitate affordable housing.

Innovative and Flexible Loan Programs

The bank offers several innovative and flexible loan programs throughout its three assessment areas. Available are the Flood Relief Program, Community Business Loan Program, Residential Improvement Loan Program, Community Home Buyer Program (CHBP), Community Home Buyer Assistance Program, and Mortgage Credit Certificate (MCC) Program.

Under the Flood Relief Program, individuals, businesses, or farms experiencing damage as a result of the flood in the winter of 1997 could elect to defer loan payments for up to three months. In addition, other programs are also available. One program enables any flood victim to apply for an unsecured loan between \$500 and \$8,000. Generally, the bank does not offer unsecured loans in amounts this high. The bank also made its residential improvement loan and community business loan programs available to anyone demonstrating flood damage.

In general, the Community Business Loan Program offers businesses with gross annual revenues of less than \$200,000, a non-revolving line of credit secured by their personal residence. Unlike the typical commercial real estate loan, this program allows for a higher loan-to-value. The Residential Improvement Loan Program is a non-revolving line of credit that provides financing for home improvements to low- and moderate-income residents. This program provides for flexible underwriting criteria, specifically the loan-to-value and debt-to-income ratio, and is priced below prime. The Community Home Buyer Program (CHBP) is a standard Fannie Mae program with relaxed underwriting criteria available to low- and moderate-income individuals. The key flexibility offered through the program is the minimum required down payment of 3%. Also, the Community Home Buyer Assistance Loans are available for nonrecurring closing costs. Lastly, the MCC Program provides first time homebuyers federal income tax credits of up to 20% of the annual mortgage interest costs.

Under CHBP, the bank originated a total of two loans valued at \$113,096 in 1996 and 17 loans totaling at \$1.4 million in 1997. No loans were extended under the other programs.

INVESTMENT TEST

Based on the bank's confined efforts in seeking and researching CRA qualified investment opportunities, and the limited number and amount of qualified investments provided by the institution since the previous examination, its investment test performance is needs to improve.

The bank's investments were in the form of securities with no qualified non-securities types of CRA investments in its portfolio. The bank donated over \$21,000 to various community development

organizations, specifically targeted to low- and moderate-income individuals. Although the grants directly benefited and promoted community development within the bank's assessment areas, they are considered small and are not representative of Farmers and Merchants Bank of Central California's capacity to make investments.

SERVICE TEST

The bank's performance under the service test is low satisfactory based on its provision of both retail banking and community development services. Moreover, its provision of equitable services to all segments of the assessment areas, including low- and moderate-income tracts and individuals, and its adequate level of community development services also contributed to the rating. Additionally, the bank has adopted a comprehensive written branch closure policy.

Retail Banking Services

The bank's delivery systems are reasonably accessible to essentially all portions of the bank's assessment areas and do not vary in a way that inconveniences certain portions of the areas, particularly low- and moderate-income neighborhoods. Of its twelve full-service branches and three "AutoBanks," one branch is located in a moderate-income census tract. Since the previous examination, the bank opened two loan production offices (LPOs): one each in the cities of Walnut Grove and Lodi. The Time Square LPO in Lodi, which commenced for business in November 1996, is situated in a moderate-income area.

Branch hours are generally from 9 a.m. to 4 p.m. Monday through Thursday, with extended hours until 6 p.m. on Fridays. Additionally, 6 of the 15 branches have Saturday banking hours between 9 a.m. and 1 p.m. Moreover, 3 of the 6 branches are located near moderate-income areas. All branches offer the full line of deposit and loan services. The bank also employs 31 bi-lingual individuals to further service their customers. In fact, the bank recently began offering customers the option of using either English or Spanish at their automated teller machines (ATMs).

The bank provides telephone banking which is available after hours until 10 p.m., Monday through Friday, and from 9 a.m. to 1 p.m. on Saturday. This service allows customers to conduct balance inquiries, order bank statements, transfer funds between accounts, place stop payment orders, and file a change of address. In addition, customers and non-customers can use the ATMs free of transaction charges.

Since the previous examination, the bank has not closed any of its branches and management has not expressed any plans to do so. The bank maintains a comprehensive written branch closure policy stating that the decision to close a branch office shall be made only after the bank has thoroughly evaluated the potential impact of such action on the local community, its customers, and employees.

Community Development Services

Farmers and Merchants Bank of Central California's efforts to facilitate community development, particularly affordable housing for low- and moderate-income individuals, is generally noted by the services provided by various branch personnel. For example, several employees support affordable

housing projects by reviewing financial statements, analyzing cost breakdowns for feasibility, including likelihood of obtaining secondary market financing, and evaluating applications for housing rehabilitation. Also, employees offer financial advice to a non-profit health organization that serves low- and moderate-income individuals.

COMPLIANCE WITH FAIR LENDING LAWS

The bank is in compliance with the anti-discrimination provisions of the Fair Housing Act and the Equal Credit Opportunity Act. Generally, the bank has comprehensive policies, procedures, and training programs in place to help prevent discriminatory or other illegal credit practices.

STOCKTON-LODI ASSESSMENT AREA

DESCRIPTION OF OPERATIONS IN STOCKTON-LODI ASSESSMENT AREA

The Stockton-Lodi assessment area consists of portions of San Joaquin County. Of the 114 census tracts in San Joaquin County, Farmers and Merchants Bank of Central California has defined 24 tracts as its assessment area, which include the cities of Lodi, Lockeford, Linden, and Ripon. This assessment area has only one low-income tract; however, it has no population and is, therefore, excluded from the analysis. The remaining 23 tracts consist of 3 (13%) moderate-, 14 (61%) middle-, and 6 (26%) upper-income tracts. Of the 30,495 families residing in this assessment area, 18.3% are low-, 17.3% are moderate-, 21.7% middle-, and 42.7% are upper-income. Moreover, 8.3% of these families are below the poverty level; thereby, reducing lending opportunities. For the 10,857 low- and moderate-income families, 22% live in moderate-, 64% live in middle-, and 14% live in upper-income tracts.

Information obtained from Dunn and Bradstreet indicate there are 1,759 businesses inside this assessment area. Of these, 1,534 (87%) are businesses with gross annual revenues of less than \$1 million. Moreover, 212 (14%) of these businesses are situated in low-income census tracts. The remaining businesses are predominantly located in middle-income tracts. The high number of businesses located in this entire assessment area provides local financial institutions excellent opportunities for small business lending. Comments made by a small business development community contact indicate that the primary credit need among businesses are loans for start-up financing, working capital loans and small business loans up to \$25,000.

The housing stock within the assessment area consists of 78.4% 1-4 family dwellings and 11.7% multi-family dwellings. Information obtained from the Regional Economic Information System indicates that the volume of building permits for single-family dwellings has declined 17% from 1992 to 1996. The assessment area has 41,793 housing units, of which 61.9% are owner-occupied, 34.1% renter-occupied, and 4% vacant. The median housing value for this assessment area is \$135,533 and the median family income is \$37,072. Based on these median figures, housing is generally affordable within the assessment area³. The owner-occupancy rate also suggests that there are opportunities for housing related lending.

³ Housing affordability is calculated in accordance with Fannie Mae qualifying housing ratios of 28%, an assumed interest rate of 7%, a 30 year term, and 1.25% for taxes and insurance.

LENDING TEST

Lending activity in this assessment area is generally responsive to assessment area credit needs with regard to small business, small farm, and residential lending. Loan penetrations among the assessment area geographies and among borrowers of different incomes and businesses and farms of different sizes are adequate. Loans originated during the sample period are in the following table.

| LOAN PRODUCTS | Total Number of Loans | | Total Value of Loans (000's) | |
|----------------|-----------------------|--------|------------------------------|--------|
| | # | % | # | % |
| Small Business | 297 | (47%) | \$27,583 | (46%) |
| Small Farm | 169 | (27%) | \$20,128 | (34%) |
| Residential | 160 | (26%) | \$11,736 | (20%) |
| Total | 626 | (100%) | \$59,447 | (100%) |

Lending Distribution by Geography

The geographic distribution of small business, small farm, and residential lending all exhibit an adequate penetration among assessment area geographies. The following table illustrates the bank's distribution of small business, small farm, and residential lending within the various geographies.

| NUMBER OF CENSUS TRACTS IN EACH GEOGRAPHY | | | |
|---|----------|--------|-------|
| Tract Level | Moderate | Middle | Upper |
| Distribution of Tracts | 13% | 61% | 26% |
| SMALL BUSINESS LOANS | | | |
| Number of Loans | 14% | 48% | 38% |
| Dollar Volume | 11% | 43% | 46% |
| SMALL FARM LOANS | | | |
| Number of Loans | 3% | 60% | 37% |
| Dollar Volume | 3.3% | 63.2% | 33.5% |
| RESIDENTIAL LOANS | | | |
| Number of Loans | 9% | 59% | 31% |
| Dollar Volume | 6% | 54% | 40% |

Small Business Loans

As stated, 14% of small businesses are located in moderate-income areas. Consequently, the bank's percentage of loans made in moderate-income areas mirrors both the business concentration as well as the distribution of tracts within this assessment area. This level of lending demonstrates the bank's responsiveness to the credit needs of small businesses located in moderate-income areas.

Small Farm Loans

Although information was not available concerning the concentration of small farms within particular income geographies, two of the three census tracts are primarily industrial or residential areas; thereby,

leaving just one tract of the total area suitable for farming. Consequently, the bank's percentage of loans in moderate-income areas compares favorably to area demographics and lending opportunities.

Residential Loans

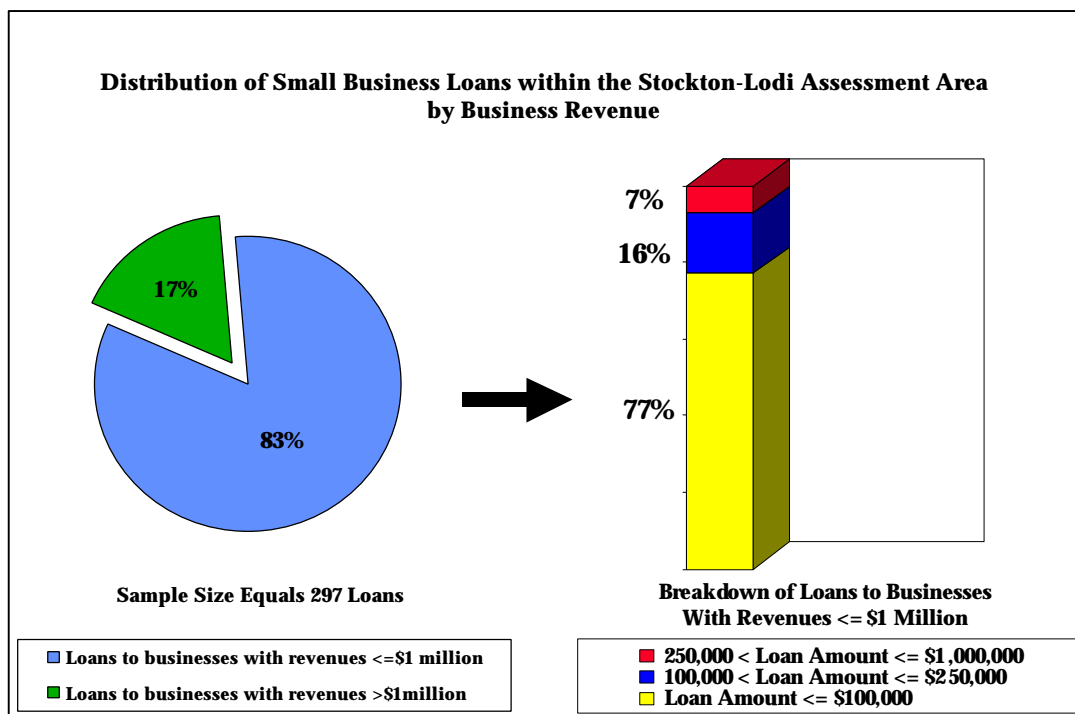
As illustrated, the bank's residential loans reflect a similar distribution among assessment area census tracts. Among the various geographies, owner-occupied units comprise only 8.2% of all housing units in moderate-income tracts, compared to middle- and upper-income tracts, which consist of 66.1% and 25.7%, respectively. Consequently, because moderate-income tracts present the least amount of residential lending opportunities, the bank's level of residential lending is reasonable.

Lending Distribution by Borrower Income or Business Revenue

The bank exhibits an adequate performance level of lending to businesses and farms of different sizes and borrowers of different incomes.

Small Business Loans

Of the 297 small business loans extended in the area, 83% were to small businesses. In addition, 76% of all loans to small businesses were in amounts of \$100,000 or less. The high number of loans extended to small businesses, coupled with the fact that a substantial majority of the loans were for low dollar amounts, demonstrates the bank's responsiveness to the needs of small businesses, which is in line with the stated credit need of the community. The graph below shows the bank's level of lending to small businesses based on number of loans.



Small Farm Loans

Of the 169 small farm loans, 87% were extended to farms with gross annual revenues of \$1 million or less. In terms of dollar amounts, 73% of all loan dollars went to small farms. Moreover, 68% of the loans were for amounts less than or equal to \$100,000. As a result, these statistics evidence the bank's responsiveness to the credit needs of small farms.

Residential Loans

Farmers and Merchants Bank of Central California originated 13% of its residential loans to low-income individuals and 16% to moderate-income individuals. This distribution is adequate given that 18% of the assessment area consist of low- and 17% consist of moderate-income families. The bank's extension of residential loans is reasonable in comparison to area demographics and the fact that residential loans are not a primary business focus.

Community Development Lending

The number and amount of community development loans demonstrate that the bank's level of responsiveness to its community's needs is adequate.

The bank originated five qualified community development loans valued at \$96,000. Two loans totaling \$50,000 were extended to a non-profit organization that provides social and academic skills to low- and moderate-income individuals. Two other loans totaling \$40,000 were to an individual business owner operating a nursing care facility with home patient fees reimbursed through Medi-Cal. The final loan for \$6,000 was for the Façade Improvement Program managed by the City of Lodi. The program is designed to provide an incentive for businesses and property owners to upgrade the façade of their property in downtown Lodi.

INVESTMENT TEST

The bank's total investments are \$19,149 in donations to various community development organizations throughout the Stockton-Lodi assessment area. Although the grants directly benefited and promoted community development within the institution's assessment area, they are considered small and are not representative of the bank's capacity to make investments.

SERVICE TEST

The bank's delivery systems are reasonably accessible to essentially all portions of the Stockton-Lodi area and do not vary in a way that inconveniences certain portions of the area, particularly low- and moderate-income neighborhoods. Moreover, its provision of equitable services to all segments of the area, particularly low- and moderate-income geographies and its adequate level of community development services similarly contributed to the rating.

Retail Banking Services

This assessment area has three full-service banking facilities, three separate stand-alone "Auto Banks," and one LPO. Of the three branches, one is located in a middle-income area, while the other

two are situated in upper-income areas. None of the branches offer Saturday banking hours; however, the facilities are equipped with 24-hour ATMs. The three Auto Banks are individually located in a moderate-, middle-, and upper-income areas. The Time Square LPO, which commenced business in November 1996, increased the bank's presence in the moderate-income areas.

Community Development Services

The bank's provision of community development services is adequate. A vice president in the bank's Mortgage Loan Department assisted the Lodi Chapter of Habitat for Humanity in obtaining a subsidy for the construction of three homes. His sponsorship involved the preparation of a grant proposal for presentation to the Federal Home Loan Board.

Two employees from the Lodi office provided financial advice to the Lodi Boy & Girls Club, Inc., a non-profit organization that assists low- and moderate-income individuals and families in improving their social and educational skills. Moreover, one of these employees volunteers his financial expertise to Su Salud. This organization is a non-profit, public benefit organization dedicated to disease prevention, both medical and dental, through education for the under-served, uninsured, and the working poor. These services are free of charge.

MODESTO-MERCED ASSESSMENT AREA

DESCRIPTION OF OPERATIONS IN MODESTO-MERCED AREA

Farmers and Merchants Bank of Central California's second assessment area includes portions of Merced County and all of Stanislaus County. This assessment area consists of 81 census tracts (71 in Stanislaus County and 10 in Merced County). Of these tracts, 5 are low-income, but 2 have zero population and are, therefore, excluded from the analysis. The remaining 79 tracts consist of 6% low-, 19% moderate-, 57% middle-, and 18% upper-income. Of the 106,018 families in the area, 20% are low-, 18% moderate-, 21% middle-, and 41% upper-income. Also, 12% of the families in this assessment area are below the poverty level.

Dunn and Bradstreet business data indicate that there are 5,424 businesses inside the Modesto-Merced assessment area. Of these, 90% are businesses with gross annual revenues of \$1 million or less. Furthermore, 1% of these businesses are situated in low-income tracts and 25% in moderate-income tracts. The high number of businesses located in the entire assessment area provides local financial institutions excellent opportunities for small business lending. Additionally, according to a small business development community contact, the most pressing credit need for businesses are loans up to \$25,000.

Of the 144,952 housing units, single-family residences account for 81% of the housing stock with 57.4% of these being owner-occupied. The median housing value for the Modesto-Merced assessment area is \$118,692 and the median family income is \$32,413. Based on these median figures, housing is generally affordable within the assessment area⁴.

Farmers and Merchants Bank of Central California operates six branches in the Modesto-Merced assessment area: three in Modesto, two in Turlock, and one in Hilmar. Five of the six branches are located in middle-income census tracts, and the sixth branch is situated in an upper-income area.

⁴ Housing affordability is calculated in accordance with Fannie Mae qualifying housing ratios of 28%, an assumed interest rate at 7%, a 30-year term, and 1.25% for taxes and insurance.

LENDING TEST

Lending activity in the Modesto-Merced area is generally responsive to assessment area credit needs. Penetration among various geographies and borrowers of different incomes and businesses and farms of different sizes is adequate. Moreover, the bank made significant use of community development lending to help address the need for affordable housing. Lending volume during the sample period is illustrated below.

| LOAN PRODUCTS | Total Number of Loans | | Total Value of Loans (000's) | |
|----------------|-----------------------|--------|------------------------------|--------|
| | # | % | # | % |
| Small Business | 363 | (57%) | \$46,736 | (58%) |
| Small Farm | 211 | (33%) | \$31,123 | (38%) |
| Residential | 68 | (11%) | \$3,042 | (4%) |
| Total | 642 | (100%) | \$80,901 | (100%) |

Lending Distribution by Geography

The geographic distribution of all loans exhibits an adequate penetration among assessment area geographies. The following table illustrates the distribution of small business, small farm, and residential lending within the various geographies.

| NUMBER OF CENSUS TRACTS IN EACH GEOGRAPHY | | | | |
|---|-----|----------|--------|-------|
| Tract Level | Low | Moderate | Middle | Upper |
| Distribution of Tracts | 6% | 19% | 57% | 18% |
| SMALL BUSINESS LOANS | | | | |
| Number of Loans | .3% | 11% | 55% | 33% |
| Dollar Volume | .1% | 11% | 50% | 38% |
| SMALL FARM LOANS | | | | |
| Number of Loans | 0% | 5% | 84% | 11% |
| Dollar Volume | 0% | 5% | 86% | 9% |
| RESIDENTIAL LOANS | | | | |
| Number of Loans | 0% | 15% | 60% | 25% |
| Dollar Volume | 0% | 13% | 56% | 31% |

Of the three low-income tracts in the assessment area, one contains Modesto Junior College, and another tract includes a state easement for access to Highway 99. The remaining tract in Merced County is not located within close proximity to the Hilmar branch, and the area is presently dominated by another local financial institution. For the 15 moderate-income tracts, five tracts are situated amongst 10 other local financial institutions, one is composed of the Gallo Winery compound, another contains two golf courses, and the final two are not located in close proximity to the bank's branches. It would take approximately 45 minutes to an hour for local residents to reach the closest branch. Four of the six remaining tracts have numerous small business loan activity; however, the last two tracts contained little, if any lending. Nonetheless, banks are not required nor expected to lend in each census tract.

Small Business Loans

Considering the location of the one low-income tract and the fact that only 1% of all businesses are located in low-income geographies, lending opportunities are limited. Consequently, the percentage of small business loans extended in low-income areas is reasonable. For moderate-income tracts, 25% of small businesses are situated in these areas. Considering the number of remaining tracts that have lending opportunities, and percentage of small businesses, the bank's small business lending activity in moderate-income areas is adequate.

Small Farm Loans

As indicated in the chart on the previous page, the percentage of loans in each tract compared to the percentage of census tracts in each geography is not reflective of the demographic make-up of the farming opportunities. Of the three low-income census tracts and 15 moderate-income geographies in this assessment area, only one moderate-income census tract provides agriculture lending opportunities since the remaining 17 tracts are either residential or commercial areas. Therefore, the bank's extension of 11 small farm loans in the one moderate-income tract is adequate.

Residential Loans

The lack of loan penetration in the three low-income census tracts is reasonable, given the composition and location of the tracts, as mentioned earlier. Among assessment area geographies, owner-occupied units comprise only .3% of all housing units in low-income tracts and 13.1% in moderate-income tracts. Consequently, low and moderate-income tracts present the least amount of residential lending opportunities. Therefore, the geographic distribution of residential loans inside the assessment area signifies adequate loan penetration.

Lending Distribution by Borrower Income or Business Revenue

Farmers and Merchants Bank of Central California's small business, small farm, and residential lending represents a reasonable penetration to businesses and farms of different sizes and borrowers of different incomes.

Small Business Loans

Within this assessment area, the bank extended 363 small business loans. Of these loans, 66% were to businesses with gross annual revenues of less than or equal to \$1 million. The table below reflects the number and dollar volume of loans originated in this assessment area.

| Loan Amount | <= \$100,000 | \$100,000 to <= \$250,000 | > \$250,000 to <= \$1,000,000 |
|---|--------------|------------------------------|----------------------------------|
| Number of Loans to Business with Revenues <= \$1,000,000 | 67% | 28% | 5% |
| Dollar Volume of Loans to Business with Revenues <= \$1,000,000 | 29% | 43% | 28% |

This table also portrays the bank's responsiveness to the needs of small businesses by offering low dollar amounts, as 67% of all loans to small business were in amount of \$100,000 or less.

Small Farm Loans

Of the 211 loans extended to small farms, 55% were to small farms with revenues less than or equal to \$100,000. Based on loan amount, the bank extended the following:

| Loan Amount | <= \$100,000 | \$100,000 to <= \$250,000 | > \$250,000 to <= \$500,000 |
|--|--------------|------------------------------|--------------------------------|
| Number of Loans to Farms with Revenues <= \$1,000,000 | 74% | 22% | 4% |
| Dollar Volume of Loans to Farms with Revenues <= \$1,000,000 | 38% | 41% | 21% |

The significant number of low dollar amount loans evidences the bank's support of the credit needs of the small farm community. As reflected in the above chart, 74% of all loans to small farms were in amounts less than \$100,000.

Residential Loans

The bank extended 24% of its residential loans to low-income individuals and 21% to moderate-income individuals. Compared to the percentage of families residing in the assessment area, 20% are low-income and 18% are moderate-income. These statistics indicate that the bank's origination of residential loans compares favorably to area demographics and lending opportunities.

Community Development Lending

The bank committed a total of \$2.5 million to the Housing Authority of Stanislaus County. As part of the agreement, the funds must be used to construct 38 single-family residences for first time homebuyers, with at least 10 homes reserved for low- to moderate-income individuals. Since the previous examination, low- and moderate-income individuals purchased 19 homes estimated at \$1.5 million. Additionally, the bank also extended one loan for \$36,000 to the Stanislaus County Affordable Housing Corporation (STANCO), a non-profit organization that provides affordable housing for the very low-, low-, and moderate-income individuals of Stanislaus County. Through this form of lending, the bank strengthened its record of providing financing to help meet the affordable housing needs of low- and moderate-income families.

INVESTMENT TEST

The bank donated \$1,200 to various community organizations throughout the Modesto-Merced area since the previous examination. Although the grants directly benefited and promoted community development within the institution's assessment area, they are considered small and are not

representative of the bank's capacity to make investments.

SERVICE TEST

The bank's delivery systems are reasonably accessible to essentially all portions of the bank's assessment areas and do not vary in a way that inconveniences certain portions of the area, particularly low- and moderate-income neighborhoods.

RETAIL BANKING SERVICES

Within this assessment are six branches. One is in a moderate-income tract, four in middle-income, and one in an upper-income tract. The branches in this assessment area share the same weekday hours of operations; however, only two, the Geer Road and Modesto branches, are open on Saturdays. While the former Geer Road branch is located in a middle-income tract, several moderate-income tracts surround it. The Modesto office is located in an upper-income tract. Nevertheless, while the one branch in the moderate-income census tract is not open on Saturdays, it does have an automated teller machine providing access to deposit accounts on a 24-hour basis. Additionally, all of the branches offer a complete line of deposit and loan services.

Community Development Services

The bank's effort to facilitate community development is limited in the Modesto-Merced area. An employee of the Modesto office is a member of STANCO, part of the Housing Authority of Stanislaus County. This employee provides banking expertise by reviewing cost breakdowns of affordable housing projects for feasibility, including the likelihood of obtaining secondary market financing. In addition, he is also the chair of the City of Modesto's Rehabilitation Committee. In this capacity, he reviews applications for housing rehabilitation loans. The rehabilitation program targets housing in a low-income census tract and in two moderate-income census tracts.

METROPOLITAN AREA

DESCRIPTION OF OPERATIONS IN SACRAMENTO-YOLO AREA, CALIFORNIA

Portions of the counties of Sacramento and Yolo comprise the third assessment area for Farmers and Merchants Bank of Central California. These two counties are part of the Sacramento-Yolo consolidated metropolitan area (CMSA). This assessment area is comprised of 1 low-, 13 moderate-, 24 middle-, and 12 upper-income census tracts. Of the 69,944 families residing in the area, there are 14,871 (21.3%) low-, 12,100 (17.3%) moderate-, 15,926 (22.7%) middle-, and 27,047 (38.7%) upper-income families. With a median family income of \$39,078 and a median housing value of \$124,215, housing is unaffordable for the low- and moderate-income individuals residing in this assessment area⁵. The area's unemployment rate is 6.9%, which somewhat mirrors the state's rate of 6.5%.

In the Sacramento assessment area, the bank operates three full-service branches, with drive-up facilities and ATMs. One of the three branches is situated in a moderate-income geography. In addition, an LPO, is also located in the City of Walnut Grove. The LPO allows customers to walk-in and apply or inquire about the bank's various loan products and a branch manager is authorized to underwrite consumer and commercial loans. However, the LPO does not accept deposits nor allow loan payments.

CONCLUSIONS IN SACRAMENTO-YOLO METROPOLITAN AREA, CALIFORNIA

A limited evaluation of the bank's performance in this assessment area was performed. The objective of the review was to ascertain whether or not the bank's lending, investment, and service activities were consistent with the performance in the bank's other assessment areas.

Based on the analysis, Farmers and Merchants Bank of Central California's lending and investment activities in the Sacramento-Yolo assessment area are consistent with the bank's lending and investment performance in the Stockton-Lodi and Modesto-Merced areas. The bank's performance under the service test exceeds its performance compared to the other assessment areas.

⁵ Housing affordability is calculated in accordance with Fannie Mae qualifying housing ratios of 28%, an assumed interest rate of 7%, a 30 year term, and 1.25% for taxes and insurance.

GLOSSARY OF FREQUENTLY USED TERMS

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|---|---|
| Area Median Income (Median Income) | The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA. |
| Assessment Area | A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed). |
| Community Development | <ol style="list-style-type: none">(1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.(2) Community services targeted to low- or moderate-income individuals.(3) Activities that promote economic development by financing business or farms which have gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.(4) Activities that revitalize or stabilize low- or moderate-income geographies. |
| Community Development Loan | <p>A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank:</p> <ol style="list-style-type: none">(1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and(2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). |

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| Community Development Service | A service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services under CRA. |
| Consumer Loans | Loans to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans. |
| Families | Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family. |
| Geographies | Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census. |
| Households | Defined by the U.S. Bureau of Census as all persons occupying a housing unit. |
| HUD Adjusted Median Income | Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation. |
| Income Level | Includes low-income, moderate-income, middle-income and upper-income. |
| Low-Income | An individual income that is less than 50 percent of the HUD- adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income. |
| Median Income | See Area Median Income and HUD Adjusted Median Income |
| Metropolitan Statistical Area (MSA) | An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000. |

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|----------------------------------|---|
| Middle-Income | An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income. |
| Moderate-Income | An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income. |
| Qualified Investment | A lawful investment, deposit, membership share, or grant that has as its primary purpose community development. |
| Real Estate Mortgage Loan | Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan. |
| Small Bank | A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion. |
| Small Business | Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act. |
| Small Business Loan | Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses." |
| Upper-Income | An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income. |